

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC15672

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| Project Name | Himachal Pradesh Horticulture Development Project (P151744) |
| Region | SOUTH ASIA |
| Country | India |
| Sector(s) | Agricultural extension and research (40%), Agro-industry, marketing, and trade (40%), Crops (20%) |
| Theme(s) | Rural markets (40%), Rural services and infrastructure (40%), Trade facilitation and market access (20%) |
| Lending Instrument | Investment Project Financing |
| Project ID | P151744 |
| Borrower(s) | Republic of India |
| Implementing Agency | Department of Horticulture, Himachal Pradesh |
| Environmental Category | B-Partial Assessment |
| Date PID Prepared/ Updated | 31-Dec-2014 |
| Date PID Approved/ Disclosed | 31-Dec-2014 |
| Estimated Date of Appraisal Completion | 30-Nov-2015 |
| Estimated Date of Board Approval | 25-Feb-2016 |
| Concept Review Decision | Track II - The review did authorize the preparation to continue |

I. Introduction and Context

Country Context

1. The overriding development policy objective of the Government of India (GoI) is poverty reduction through faster economic growth and productive employment. However, the pattern of recent economic growth in India (especially non-farm) is not creating commensurate growth in jobs and higher real incomes. In the period 2004 to 2010, for example, whilst GDP grew by almost 10 percent, the growth in employment was around 0.22 percent overall and only 0.14 percent in the tertiary sector. In addition, most (85%) of the employment is in the informal/unorganized sector where workers have little employment protection and rights. Even excluding agriculture, 70 percent of non-farm jobs (mostly in manufacturing) are informal while the higher productivity tertiary (service) sectors are being driven largely by capital and technology and not labor. The informal structure of employment, the trend towards more capital intensive modes of production and low education, skills and capacity of workers in agriculture mean that majority of the rural poor are

effectively 'stuck' in poverty and low productivity, low income agriculture.

2. The GoI Twelfth Five Year Plan, therefore, recognizes that (i) faster economic growth is a necessary but not sufficient condition for inclusive poverty reduction (especially in agriculture), and (ii) the Plan target for accelerating macro-economic growth needs to be accompanied by a specific target to accelerate the growth of agricultural GDP. Accordingly, the twin aims of GoI policy in the medium term are to create the conditions for faster growth of productive jobs outside of agriculture while at the same time improving the productivity and incomes in agriculture and the broader rural space.

3. Consumer demand for food commodities in India is changing rapidly (and significantly) fueled by strong economic growth, fast expanding middle class and higher disposable incomes, particularly in urban areas, and greater awareness of the health benefits of fruits and vegetables. This in turn is providing the growing demand base for higher quality/value agricultural commodities, as the share of cereals and staples in food expenditure declines, whilst that of proteins, fruits and vegetables increases. This is reflected at the aggregate level, where in the period 1984 to 2008, the share of high-value commodities in agriculture GDP increased from 37.3 percent to 47.4 percent. High value agriculture registered a strong increase over the last decade during which the growth rate of value of primary exports (rice, sugar, marine products and tea) declined, while that of high-value exports (fruits, vegetables, floriculture, meat, processed fruit juices) grew by about 18 percent annually.

4. This transition underscores the enormous potential for commercialization and income growth in agriculture (including small holder) as production, consumption and trade shift from traditional food crops to horticulture and other non-traditional (high-value) commodities. Moreover, relative to other countries, India has considerable comparative advantages in having a very large (growing and largely untapped) domestic market, which reduces the reliance on exports as the principal driver for near term agriculture growth. Nonetheless, beyond the domestic market there are strong comparative and competitive advantages in developing high-value agricultural export trade, which currently remains negligible.

5. Key factors which will determine the potential for the individual States of India to sustainably and economically meet future (aggregate) demand for high value food commodities include:

- Geographic comparative advantage in producing particular commodities based on climate, topography, natural resources and changing land use,
- The quality of market infrastructure and level of economic integration with key primary and secondary markets and non-farm employment,
- Competitive advantage in costs of production and marketing, particularly related to labor and the modes and cost of transportation,
- State agriculture and market development policy which underpin the enabling investment and regulatory environment for private sector entry and development, and
- The relative ability of state to establish an enabling policy, regulatory environment coupled with adequate provisions for infrastructure to induce private sector investment.

6. Relative to the factors above, the State of Himachal Pradesh (HP) displays strong comparative advantage and potential for producing and supplying high value agricultural

commodities to meet the growing domestic and potentially international demand. Located in the North- Western Himalayan region, HP, consisting of mountainous tracks with elevation ranging from 350 –7000 m above mean sea level. The state's agriculture is dominated by horticulture commodities, which account for about 44 percent of the cropped area and contribute about 48 percent of agricultural GDP. The state has emerged as a leading producer of fruits and offseason vegetables. The horticulture sector annually contributes INR 63,000 million (US\$ 1051 million) to the state economy, which is about 7 percent of the state GDP (in 2013-14). Horticulture in the state has been responsible for many of the positive outcomes in employment, wages, and in turn, poverty reduction. Employment in horticulture as a percentage of all agricultural employment in HP increased from 0.9 percent to 28 percent between 1983 and 2009-10. Crop diversification has made a significant impact on income and employment of small and marginal farmers. Also, the proportion of area under non-foodgrain crops was a significant factor influencing the growth of rural non-farm employment in HP. Finally Himachal Pradesh is the only state with the highest proportion of the population (90% 2011 census) in rural areas and majority (69%) of them are classified as marginal farmers. The average operational land holding is less than one ha. About 70 % the state employment comes from the agriculture and rural economy.

7. HP is considered a progressive state with a significant high level of government commitment for developing rural sector, especially horticulture sector, and its track record of implementing program and policies in rural space is favorable when compared with most states and in terms of the market access it is favorably located with good road connectivity to large domestic market including the largest agriculture wholesale market in south Asia (i.e., the Azadpur wholesale market in Delhi).

Sectoral and Institutional Context

8. Many challenges stand in the way of the smallholder farming community in HP in translating these opportunities into increased farm incomes. Smallholder farmers face significant market failures in learning about and adopting rapidly changing horticulture technology. The application of knowledge and technology has become a critical factor in horticulture towards reducing production costs, increasing productivity and meeting quality standards. Though HP is a leading producer of horticulture crops, especially fruits and vegetables, they are either yet reach their potential or in some cases the productivity has been declining. Illustratively, though HP is the second largest producer of apple in the country its productivity ranges from 3 to 6 tons per ha in comparison to 35 to 40 tons per ha in the leading apple producing countries. Also, there has been a high level of variability in apple production ranging from 0.3 to 0.9 million tons per annum and the production has stagnated in the last two decades. There are several factors affecting the apple productivity including, among others, monoculture of Delicious varieties without adequate pollination management (the Delicious group of cultivars account for about 83 per cent of the state production), old and senile orchards (more than 40% of the orchards have passed their economic productivity level), poor quality of planting material (both the root stock and scion), poor orchard management, insufficient pollination and fertilization due to lack of adequate pollinators, and inclement weather conditions, among others. While the Department of Horticulture and the Agricultural Technology Management Agency (ATMA) have been entrusted as the nodal agencies in the state for technology transfer, their capacity needs to be significantly consolidated to enhance the ability of producer to adopt efficient and sustainable production and post-harvest practices for meeting the volume, timing and quality requirements of different markets.

9. Producers also face important challenges in terms of information asymmetries regarding access to market information on market opportunities or quality demands. Smallholder farmers are also

disadvantaged by significant (post-production) diseconomies of scale resulting in high costs of marketing and low profitability. Due to insufficient development of forward and backward linkages, efficient and competitive value chains in the state are far and few. For instance, the state has negligible pre-cooling facilities; similarly, integrated packaging and sorting facilities are non-existent. Also, the limited cold storage capacity is concentrated in a few districts, and many districts do not have such facility. This inhibits the development of a commercially viable hub-and-spoke cold supply-chain. This not only hampers the quality of raw material but also limits the growth of processing industry within the state. Finding suitable forms of collective action to overcome this disadvantage requires considerable efforts and investments at social mobilization, capacity building and common asset creation which smallholder farmers alone cannot bear. Along with this there is urgent need to attract and crowd in private investment, through appropriate incentives and instruments, including Public Private partnership.

10. Farmers also have severely limited choice in accessing markets. Producers in HP depends on its regulated wholesale markets – also known as “mandi” or Agriculture Produce Marketing Committee “APMC” markets – to be the conduit for the trading of a long list of agricultural and horticultural products. This system of commodity trade has resulted in a supply chain that is fragmented and uncoordinated, involving multiple layers of intermediaries, thus resulting in high spoilage, wastage and high trader margin. Fruits and vegetables marketing is characterized by the dominance of middlemen at different levels, involving pre-harvest contractors, forwarding agents, commission agents, wholesalers, sub-wholesalers, retailers, and, in case of the remote terminal markets, there is a repetition once or twice, of the entire process. The existence of multiple intermediaries at successive markets causes prices to snowball with each transaction. Himachal Pradesh has been amongst the most progressive states in terms of reforming agriculture marketing, thereby allowing for: (i) the establishment of private agriculture markets, (ii) contract farming, (iii) direct purchase from producers by agribusiness, and (iv) farmer-consumer markets. Though, HP has opened the marketing sector for private investment, development of new marketing arrangements outside the regulated wholesale markets have been limited and slow to emerge, in spite of the amendment of the relevant Act and Rules. Hence, the state government now intends to implement an approach that promotes the development of new marketing options to farmers; support the top tier of regulated wholesale markets in the state to reform, invest and provide better services subsequent to which such markets are expected to compete on the basis of services rendered and value-addition; and gradually undertaking further incremental regulatory reforms.

11. Limited development of agro processing in the state. Despite the comparative production advantage in horticultural commodities and emerging marketing opportunities, conversion of this advantage into competitive agro-processing industries has proved to be challenging in the state. The total investment in assets, across food processing, for Small and Medium Enterprise (SME) is a meagre INR 83.75 million (US\$ 1.40 million), with an abysmally low total processing capacity of about 1113 tons. This makes the average ticket size of investments several times lower than that of the neighboring states. Essentially, HP’s agro processing is characterized by a few large firms in this sector and a large number of formal and informal micro-enterprises resulting in a “missing middle” i.e. the complete absence of SME in the agro processing in the state. Facilitating the development of SME both for value addition and job creation, would require handholding and business facilitation services to early stage agriculture and horticulture enterprises along with critical changes to the regulatory framework, in order to create an enabling business environment for agriculture and horticulture SMEs to flourish in the state.

12. The challenge for Himachal Pradesh is to create an environment that enables the farming community to acquire improved technical capacity and better access to market opportunities, both of which will allow for higher returns and better farm incomes. The proposed project will support the long term policy objective of both the Governments of India and HP for agriculture sector growth through diversification to high value horticulture production.

Relationship to CAS

13. The overarching objective of the World Bank Country Partnership Strategy (CPS FY2013–17) is closely aligned to the key development goals of the GoI’s 12th Five Year Plan (2013–17) related to faster, sustainable, and more inclusive growth, focusing inter alia on poverty reduction, equality, regional balance and employment. The CPS clearly identifies rapid economic growth as an essential precondition for poverty reduction and shared prosperity. Within this broader framework the proposed project will primarily support two of the three CPS strategic engagement areas i.e. related to transformation and inclusion:

A. Transformation: A key project thrust will be to enhance agglomeration of mainly small and marginal horticulture producers to improve economies of scale in producing, processing and marketing. The broader longer term aim would be to instil a collective entrepreneurial spirit where producers shift from being “price takers” of primary produce, with no or very little influence over the market to being more business and value focused. In parallel with this, the project will support horticulture productivity (including value and incomes) through essential technology transfer in production and improved post-harvest and market operations, and also explore and pilot possible financing modalities to support entrepreneurship and agri-business (CPS outcome 2.4 para 86 & 89). Overall, the support of the project on development of higher value crops and more efficient supply chains will underpin ongoing structural transformation of the economy (CPS para 34). In addition, a more purposeful and effective market and enabling environment will increase investor confidence and inward financial flows into the agriculture sector (CPS para 43).

B. Inclusion: The majority of agriculture producers in HP are marginal farmers. Moreover, in the medium term, due to land fragmentation an increasing number of farm families are projected to become smaller and ‘more’ marginal. The project will mostly benefit this category of producers. In addition, the project will have potentially significant impact on promoting gender inclusiveness through employment creation in post-harvest management and processing which traditionally employ a much higher proportion of female labor.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The Project Development Objective (PDO) is to “increase the productivity, profitability and market access of selected horticulture commodities in Himachal Pradesh”.

The primary target beneficiaries of the project will be small and marginal horticulture producers in selected production clusters across the state.

Key Results (From PCN)

The Key Project Indicators (KPI) will be:

- a. Area under improved clonal rootstock and cultivars of selected horticulture crops
- b. Percentage increase in price realized by producers over control

- c. Share of wholesale price realized by producers
- d. Share of selected horticulture commodities sold through new marketing channels

In view of the long gestations period of the tree crops like apple, the productivity effect within the project life time is being measured through indicator A.

III. Preliminary Description

Concept Description

14. Description: The project will address key, well known gaps and deficiencies in the horticulture sector in Himachal Pradesh and transform the sector (and the overall rural economy) to being more productive, efficient and profitable. By doing so, it will contribute to the key aspects of the GoI's, GoHP's and the Bank's CPS strategic objectives related to faster and broader agriculture sector growth and inclusive development. The project will achieve the PDO by: (i) improving producer's access to knowledge and climate resilient production technologies so that producers are able to respond to climate changes and climate variability and emerging market opportunities; (ii) promoting investments in agribusiness, fostering backward and forward linkages in the value chains for horticulture products, facilitating access to finance for agribusiness entrepreneurs, and, where appropriate, support process, regulatory and/or policy change; and (iii) supporting the development of an improved platform for market-related information and intelligence, alternative market channels developed outside of regulated markets, piloting negotiable warehouse receipts for horticulture commodities and improved services provided by modernizing the promising traditional wholesale markets. In line with the PDO, the project will have the following components.

Component A: Horticulture Production and Diversification

15. The focus of this component is to enhance horticulture competitiveness at the farm level. This would be done by strengthening the producer's capacity through technical knowledge, access to improved genetic material, improved resilience to weather related shocks and support diversification and intensification of horticulture production, aimed at responding to changing market demand.

Component B: Value Addition and Agri-enterprise Development

16. The focus of this component is to support the GoHP's aim to secure increased private sector participation in the development of value chains, processing and marketing. This would be done by improving value realization at the farm level through improved sorting, grading and packing of produce that enhances the average price realized; supporting a supply chain infrastructure that prevents wastage and value erosion in transportation, and allows access to more distant markets; and enabling secondary and tertiary processing that create higher value for the produce.

Component C: Market Development and Sector Stewardship

17. The focus of this component is to provide an improved platform for market-related information and intelligence, expand market access through alternative marketing channels, improve market infrastructure, mitigate price risks and support the evolution of a competitive set of agriculture markets in the state.

Component D: Project Management, Monitoring and Learning

18. This component will ensure the effective implementation of the project activities and monitor and evaluate project implementation progress, outputs and outcomes, building on implementation experience. This component will support: (i) establishment and operations of Project Coordination Unit (PCU), which will oversee and coordinate the activities of the implementing agencies of the project; (ii) establishment and operations of Project Implementation Units in the respective implementing agencies; and (iii) setting up of a monitoring and evaluation (M&E) system for the project, including a project management information system and contracting an external M&E agency to monitor project activities and impact. This component will also finance dedicated staffing for the project activities that are attributable to the outcomes of the project, consultancies, training and related material, office equipment, and operational costs.

During the project preparation, the Environmental and Social Assessment (ESA) would be carried out and an Integrated Environment and Social Framework (ESMF) prepared for addressing the safeguard issues.

IV. Safeguard Policies that might apply

| Safeguard Policies Triggered by the Project | Yes | No | TBD |
|--|------------|-----------|------------|
| Environmental Assessment OP/BP 4.01 | x | | |
| Natural Habitats OP/BP 4.04 | | | x |
| Forests OP/BP 4.36 | | x | |
| Pest Management OP 4.09 | x | | |
| Physical Cultural Resources OP/BP 4.11 | | x | |
| Indigenous Peoples OP/BP 4.10 | x | | |
| Involuntary Resettlement OP/BP 4.12 | | x | |
| Safety of Dams OP/BP 4.37 | | x | |
| Projects on International Waterways OP/BP 7.50 | | | x |
| Projects in Disputed Areas OP/BP 7.60 | | x | |

V. Financing (in USD Million)

| | | | |
|---|--------|-----------------------|---------------|
| Total Project Cost: | 167.00 | Total Bank Financing: | 135.00 |
| Financing Gap: | 0.00 | | |
| Financing Source | | | Amount |
| BORROWER/RECIPIENT | | | 32.00 |
| International Development Association (IDA) | | | 135.00 |
| Total | | | 167.00 |

VI. Contact point

World Bank

Contact: Manivannan Pathy
Title: Sr Agricultural Spec.

Tel: 5785+47691
Email: mpathy@worldbank.org

Borrower/Client/Recipient

Name: Republic of India
Contact: Mr. Bhaskar Dasgupta
Title: Deputy Secretary, DEA (MI), Ministry of Finance, GoI
Tel: 011-23092883
Email: bhaskar.dasgupta@nic.in

Implementing Agencies

Name: Department of Horticulture, Himachal Pradesh
Contact: Jagdish Sharma
Title: MD- HPMC
Tel: 91-177-2623835
Email: jagdish91@gmail.com

VII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>